VZCZCXRO5055
RR RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHTN #0052/01 0741138
ZNR UUUUU ZZH
R 141138Z MAR 08
FM AMCONSUL CAPE TOWN
TO RUEHC/SECSTATE WASHDC 2620
INFO RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLO/AMEMBASSY LONDON 0147
RUEHFR/AMEMBASSY PARIS 0167
RUEHSA/AMEMBASSY PRETORIA 5968

UNCLAS SECTION 01 OF 04 CAPE TOWN 000052

SIPDIS

SENSITIVE BUT UNCLASSIFIED
SIPDIS

DEPT FOR AF/S AND EB/TRA/OTP

E.O. 12958: N/A
TAGS: ETRD EWWT ELTN EIND EINV SF
SUBJECT: TRANSNET RESTRUCTURING AND CAPE TOWN PORT EXPANSION PLANS

REF: STATE 0386

This cable was a collaboration between Consulate Cape Town and Embassy Pretoria.

¶1. (SBU) Summary. Transport Officer and Special Agent for Department of Defense Force Protection met with Transnet and maritime industry officials in Cape Town to discuss Transnet restructuring, port expansion projects, and investments to increase port security. The National Port Authority (NPA) Bill of 2002 called for a restructuring of the South African port system and the establishment of an independent port regulator. Officials described Transnet restructuring and plans for addressing port capacity constraints. They acknowledged limitations to the current expansion program and outlined Transnet's long-term, integrated infrastructure development framework. Industry representatives and analysts stressed that additional political will and investments will be required to address long-term capacity constraints and to create an independent port regulator. In January 2008, Transnet Port Terminals launched a R4.2 billion ($545 million) expansion program to address short-term capacity constraints at the Cape Town Port Container Terminal. Transnet also plans to spend R54 million ($7 million) over the next two years to implement the second phase of its security infrastructure investment. End Summary.

¶2. (U) Transport Officer and Special Agent for Force Protection met with officials from Transnet National Port Authority (TNPA), Transnet Port Terminals (TPT), Council for Scientific and Industrial Research (CSIR), and the maritime industry in Cape Town during the week of February 25 to discuss Transnet restructuring, port expansion projects, and investments to improve port security. Transport Officer informed officials about a follow-up Coast Guard International Ship and Port Facility Security (ISPS) Country Visit in July 2008 and discussed logistics for the visit. Transport Officer also attended the Port Liaison Forum hosted by the Cape Town Chamber of Commerce.

Transnet Restructuring and Re-branding

¶3. (U) The National Port Authority (NPA) Bill of 2002 called for a restructuring of the Transnet port authority and operations and the establishment of an independent regulator. Transnet is a state-owned enterprise that was established in 1990 and completed a round of restructuring and re-branding in 2007. Transnet officials provided an update on restructuring achievements under Transnet CEO Maria Ramos and described current plans for addressing port capacity constraints. The National Port Authority was separated from the port operators; however, the National Port Authority (TNPA) and its regulatory functions still remain a division within Transnet. TNPA

Cape Town Port Planner Billy Cilliers stated that transportation infrastructure underinvestment was "part of the apartheid legacy that Transnet inherited and it is now playing catch up." He stated that Transnet's CEO had a goal to "transform Transnet into a focused freight transport and logistics company comprising ports, rail and pipeline assets."

¶4. (U) CEO Maria Ramos has divested Transnet of all of its non-core activities. Transnet divested its holdings in commuter rail operations as a part of this restructuring and re-branded all of its remaining divisions to include the Transnet name. Cilliers added that "Transnet is now a leaner entity with five big players." The new divisions are: Transnet National Port Authority (formerly the National Port Authority), Transnet Port Terminals (formerly South African Port Operators), Transnet Rail Engineering (formerly Transwerk), Transnet Pipelines (formerly Petronet), and Transnet Freight Rail (formerly Spoornet). However, an independent port regulator has not been created yet since the port authority and operators remain "sibling" divisions within the Transnet family. TNPA owns and performs landlord functions at all six South African commercial ports (Cape Town, Durban, East London, Mossel Bay, Richards Bay, and Saldhana). The majority of South African port terminals and all of the container terminals are operated by TPT. A few terminals such as the Fresh Produce Terminal in Cape Town are operated by the private sector.

-- -----
Increased Container Shipping Strains Port Capacity
-- -----

¶5. (U) Increased container shipping has led to a call for increased port capacity worldwide. Maritime industry officials stated that container shipping volume is estimated to double in the next eight

years and that the global container shipping fleet will grow by 60 percent over the next decade. However, industry experts noted that lack of port infrastructure capacity inhibits further growth in this sector. Safmarine Chairperson Eivind Kolding said most major ports including those in South Africa are experiencing bottlenecks. Transnet officials concurred that container shipping demand is on the rise and port capacity needs to be expanded to accommodate this growth. Transnet Port Terminals encouraged carriers to adopt around-the-clock operations and to be more flexible in their pick-up and delivery times to include off-peak, non-daytime slots to reduce bottle-necks. However, discussions at the Port Liaison Forum highlighted the difficulty of getting shippers and their land transport contractors to adapt to off-peak schedules at the Cape Town port facilities.

Constraints to TNPA Independence

¶6. (SBU) CSIR Supply Chain Analyst Emma Maspero stated that the parastatal nature of Transnet has thwarted infrastructure investment in the past. She noted that TNPA is the only profit-making arm of Transnet. In 2005/2006, Transnet National Port Authority increased its operating profit by 18 percent from R3.2 million ($415,000) to R3.8 million ($493,000). According to Maspero, the South African Government (SAG) has historically redistributed TNPA's profits to other Transnet divisions and there have been no real infrastructure investments since 1976. Key Accounts Manager Jos Willemse added that the Cape Town container terminal expansion and other similar projects will only address current capacity constraints. Willemse commented that the project was not a good way to address long-term capacity needs. He added that Transnet should develop plans that will address capacity needs at least 20 years into the future instead of expansion projects that address only short-term needs. Maersk Shipping Line National Operations Manager Kees Van Welie also welcomed the investment in Cape Town, but commented that it was "not a watershed, unlike expansion programs in China and Dubai."

¶7. (SBU) Maspero said Transnet's financial situation provides a disincentive for the SAG to fully implement changes recommended in the NPA Bill. Cilliers concurred that TNPA is the "cash cow for

Transnet" and its transfer into an independent authority would be a difficult transition for Transnet. He noted that no country in the world has a structure for a port authority or port operator that is similar to South Africa. Van Welie commented that the maritime industry in South Africa is dominated by the Transnet monopoly since it is the land owner, port operator, and regulator in most cases. Cilliers stated that "these are interesting times for the maritime sector since no one knows what the final port regulator will look like." He added that there is also a question as to whether TNPA would keep its current land holding if it were to be transferred into an independent authority. The share-holding Minister for Public Enterprises has final say over the timetable for the transfer of TNPA or the creation of a separate regulatory authority.

Long-Term Port Expansion Plans

¶8. (SBU) TNPA Officials noted that Ramos' restructuring goals included linking Transnet's infrastructure maintenance plans to its long-term investment plans. Transnet Project was created to harmonize investment processes across all ports and divisions. However, Cilliers noted that Transnet Project is still fairly new and adjusting to its mandate to facilitate corridor transport planning. Transnet is planning on expanding capacity at existing ports and invested R 3.2 billion ($416 million) to develop the Port of Ngqura in the Coega Industrial Development Zone, which is expected to come on-line in 2009. Maersk officials noted that either Maersk or MSC shipping lines will have to move their operation to Coega to make the new port viable. Van Welie stated that SAG wants the shipping lines to promise certain volume levels at Coega, but the companies are waiting for assurances of land transport availability from Coega to the major trade hubs before finalizing any decisions to relocate.

¶9. (U) Cilliers stressed that Transnet has also made an effort to create harmonized long-term infrastructure development frameworks for all of its ports. All of the ports agreed to use the same methodology for these planning documents, which Cilliers described as a revolutionary step. According to Cilliers, these development frameworks include econometric modeling and forecast port development needs until 2035. Cape Town prepared its draft infrastructure plan in December 2007 and Cilliers believed a final

version would be ready for ministerial approval in the next month or two. He admitted that this type of framework has never been approved before by the SAG and hoped there would be enough political will to move the plans forward in 2008 to address long-term capacity constraints.

Cape Town Container Terminal Expansion

¶10. (U) Transnet Port Terminals launched a R4.2 billion ($545 million) expansion program to increase capacity at the Cape Town Port facilities in January 2008. The five-year plan is designed to upgrade capacity at the country's second-largest container terminal after Durban. The Cape Town container terminal upgrade forms part of Transnet's R28 billion ($3.6 billion) investment in port-related projects. Transnet's total transport infrastructure investment budget for the next five years is R78 billion ($10.1 billion). Transnet officials explained that the container terminal expansion is expected to relieve mounting pressure by enabling the Cape Town terminal to increase its capacity from 740,000 twenty-foot equivalent units (TEUs) a year to 1.4-million TEUs a year by the end of 2012.

¶11. (U) Cilliers explained that the expansion project includes the demolition of nonessential infrastructure, terminal reconfiguration to maximize stack capacity, a reefer-point expansion program, as well as the procurement of specialized equipment including Liebherr ship-to-shore cranes and 32 rubber-tired gantry (RTG) cranes. Construction activities planned for 2008 include building a crane erection site to assemble the first two Liebherr ship-to-shore

cranes. [Note: Pier One in Durban is currently the only South African terminal using the high-tech RTG cranes.] The quay line will also be extended by 10 meters to accommodate the new gantry cranes. Transnet Port Terminals Cape Town Business Unit Executive Oscar Borchards said "initial work will entail refurbishing the quay and deepening the berth and the Ben Schoeman container basin/dock to 15.5 meters." The dock will also be widened from 180 meters to 300-500 meters. At the Port Liaison Forum, Borchards provided assurances that port productivity would be maintained during the expansion by completing the construction work in sections and diverting container vessels to Cape Town's multipurpose terminal.

¶12. (U) Transnet officials noted that capacity expansion was limited by the amount of available real estate near the port in Cape Town. Additionally, environmental risk assessments have restricted plans for further expansions into the sea. According to TNPA officials, the current container terminal expansion project has to move slowly because of the environmental conditions near the port. Unlike most ports, which have sandy bases, the Cape Town port sits on the base of the Table Mountain. Officials emphasized that the container terminal expansion will take at least four years to complete since "the project involves drilling under the water and blasting the blue rock underneath". They compared the required construction work to blasting underground in the mining sector.

Security Infrastructure Investment

¶13. (SBU) Cilliers stated that South African ports are ISPS compliant and Transnet is currently in its second phase of security infrastructure investment. According to Cilliers, Transnet plans to spend R54 million ($7 million) over the next two years to implement a series of high-tech security solutions including biometric gate scans, closed circuit TV monitoring, installation of security booms/spikes, and number plate recognition. However, he commented that some of the port areas should have been re-zoned prior to implementation of these new security measures to reduce unnecessarily adverse impacts on business. He also added that there is a skills shortage among security personnel that is hampering security enforcement. Cilliers stressed that personnel skills need to match the level of sophistication of the technical systems for the measures to be effective. Other Transnet and industry representatives agreed that security contractors received minimal training and were not well-compensated in South Africa.

¶14. (SBU) Comment. The South African maritime sector is undergoing a great deal of restructuring and is making substantial infrastructure investments. However, current expansion plans are not likely to adequately address medium and long-term capacity constraints, especially with the growth of containerized shipping. Industry officials and analysts believe that the current expansion programs are late in coming and will have limited impact on overall

capacity constraints. SAG approval and implementation of the longer-term, integrated port infrastructure expansion plans will be necessary to keep pace with GDP and container shipping growth expectations. Additionally, industry representatives and analysts are skeptical that an independent port regulator will be created (through TNPA transfer or through the creation of a new entity) in the near future since TNPA is the only profitable Transnet division. The political will does not exist to disband the Transnet monopoly in the maritime sector. Like power shortfalls, transportation and port infrastructure capacity is a critical bottle-neck for the maintenance of high levels of economic growth. End Comment.

LA LIME